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CURRENT SUPPORT BRIEF

AN ASSESSMENT OF INDUSTRIAL POLICIES
IN COMMUNIST CHINA DURING 1961

OFFICE OF RESEARCH AND REPORTS

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AN ASSESSMENT OF INDUSTRIAL POLICIES IN COMMUNIST CHINA DURING 1961

Early in 1961 the Chinese Communist regime adopted a set of conservative industrial policies designed to correct mistakes and imbalances resulting from the all-out production drives of the "leap forward" era (1958-60). Some branches of industry had begun retrenching as early as mid-1960, but for industry as a whole the new set of policies did not go into effect until January 1961. They were unveiled at the 9th Plenary Session of the 8th Central Committee of the Chinese Communist Party, which issued a communique on 20 January 1961 stating that the broad objective in 1961 for industry, and for heavy industry in particular, was to "consolidate, fill out, and raise standards." 1/ To reach this objective the communique called on industry to (1) carry out a thorough program of overhauling equipment; (2) institute quality control systems; (3) increase variety of products; and (4) lower costs. A fifth policy change was a decision to curtail investment, a change that has tended to reduce the demands on industry to produce investment goods. These new industrial policies led state planners to begin assigning production targets according to estimated needs of consumers and to discontinue the previous practice of ordering plants to maximize production simply because capacity existed.

In assessing the new industrial policies, we have had to rely for evidence mainly on the Chinese Communist press. Although the press has been a poor source for production data in 1961, discussions of new operating procedures and policies have seemed realistic and generally convincing. The press has reported sufficient detail to establish, for example, that the iron and steel industry carried out a major program of relining furnaces and overhauling equipment in the early months of 1961, and that more effective systems of quality control, which use independent inspectors, are being set up. Signs of realism are the current stress in propaganda on the responsibility of managers and "leading cadres", in contrast to the previous emphasis of mass movements, and on rational industrial procedures in contrast to the previous policy of "letting politics take command."

25X1B Other evidence of the new policies, although limited, generally supports and clarifies reports from official Chinese Communist sources. 25X1B For example, excellent independent evidence of the thoroughness of the program to overhaul capital equipment is suggested

analysis, [redacted] This 25X1B reveals that a very extensive program of repairing and rebuilding freight cars began in mid-1960 and extended into early 1961. At the same time, this analysis indicates that production of new freight cars dropped sharply, and that the industry was allowed to operate well below capacity. 25X1B

25X1B Freight cars are not the only item of capital equipment receiving low priority in production assignments this year. 25X1X

25X1X [redacted] re-ported that producers goods in general would receive low priority in 1961 -- lower than that for tractors, agricultural implements, and machinery for export, for example. 3/ Other tentative evidence suggests that heavy machine-building factories designed to produce metallurgical equipment, such as open hearths, are operating below capacity; this evidence suggests that the need for such equipment is less urgent, although it is also possible that the operation of these

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factories, which are fairly new, is complicated by technical difficulties caused by Chinese inexperience.

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[REDACTED], many plants curtailed, suspended, or discontinued operations during 1961. A reason commonly given for the observed curtailment is "shortage of raw materials." This explanation clearly is valid in the case of light industrial plants, which generally have been unable to get adequate raw materials from the agricultural sector of the economy, and for certain heavy industrial plants that require materials that are difficult to obtain readily either at home or abroad. An example of the latter is the large Changchun truck plant, which seems to be affected by shortages of cold rolled steel. However, for many plants, especially in heavy industry, reported "shortages" may reflect not only the inability of the economy to furnish the materials but also the unwillingness of the authorities to allocate materials to that particular operation. Under the new 1961 policies a plant may have its operations curtailed because its equipment is due for a major overhaul, because it fails to meet the new standards of costs and quality, and/or because the current demand for its product is less than its capacity.

The success of the 1961 industrial policies is difficult to assess because these policies were designed to produce qualitative successes in the operation of heavy industry and are overshadowed by the serious difficulties that persist in agriculture, light industry, and foreign trade. Moreover, the policies have created some new problems such as an increase in urban unemployment; the official policy of sending unneeded workers to the countryside, where the ratio of farm labor to arable land is already extremely high, has not been a genuine solution. Nevertheless, on the positive side, the new policies seem to have been pursued vigorously and in part successfully. Three important benefits to the economy from the new policies are discernible: (1) improvements in quality and variety mean that industrial output today generally is more useful than was an equal volume of output a year ago; (2) it is probably easier now than a year ago for factories (with high priority) to obtain raw materials and components from subcontractors in desired specifications; and (3) the overhaul of equipment and improvement of management procedures probably are giving more industries a higher effective capacity than currently needed. These improvements will be useful when the Peking regime decides to resume a faster economic pace, which it has said it plans to do after 1962.*

* In the 1 February 1961 issue of Red Flag, economic planner Po I-po said "it is anticipated that after two to three years, our country's industry will become more consolidated, filled out, and improved on the basis of new developments, and that an even better leap forward will inevitably appear." 4/ A People's Daily editorial of 30 September 1961 indicated that regime thinking is still geared to this timetable; using more restrained language than Po, the editorial stated that the policy of consolidation would continue through 1962 in order to "create good conditions for future expansion of the national economy during the Third Five Year Plan" (1963-68).

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Analyst:

Coord:

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3. [REDACTED]
4. [REDACTED]

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